SUBMISSION

To Productivity Commission

International Freight Transport Services

Introduction

1. This submission is from the Customs Brokers and Freight Forwarders Federation of New Zealand Inc. (CBAFF)
President: Willie van Heusden
Executive Director: Rosemarie Dawson
Physical Address*:* 162 Mokoia Road, Birkenhead, North Shore City 0626
Postal Address*:* PO Box 34-530, Birkenhead, North Shore City, 0748
Email Address: ceo@cbaff.org.nz
Phone Number: 09 419 0042
Fax Number: 09 419 0059

---

2. The Federation represents those companies and individuals who are involved in the business of border logistics facilitation. Membership representation is diverse, covering all facets of service provision for the facilitation of international trade – both import and export. Our nationally based membership is comprised of 120 business members, who make up 80 per cent of the industry. Included in the Federation's aims is the following statement: "To liaise, maintain and develop communication within the industry and between various stakeholders to ensure mutually beneficial strategic partnerships result".

Questions Posed

In response to the questions posed, the Federation responds as follows:

QUESTIONS	CBAFF RESPONSES
1 Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this inquiry?	Regional development. The country's economy is driven from the entire country and not just Auckland so there must still be a Regional Development component in the consideration otherwise any productivity gains will be even more seriously compromised by additional costs to/from market
Context	
2 Is the framework described in Section 3.2 appropriate for this inquiry? Are there any important issues that might be missed?	The framework as described is appropriate
3 Which components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement in the overall efficiency of the freight system?	Port interfaces and IS portals warrant greater attention. Evidence they are inefficient is pointed to by the duplicate nature of data input and output. Airport cargo terminal infrastructure i.e. Airline Container Terminal Operators (Air New Zealand and Menzies Aviation), these are evidently inefficiently with forwarders' trucks queuing for many hours every morning resulting in additional costs incurred by forwarders which is then passed on to customers. Coastal transport infrastructure lacks competition and coverage of ports; pricing is high and with one operator - they dictate the service on offer, recently deciding to no longer call at Wellington and New Plymouth, resulting in higher costs of servicing, particularly for New Plymouth, as options are far more limited, resulting in a lot of cargo that will now move via road from Auckland, Napier or Wellington
4 What environmental considerations should fall within the scope of this inquiry? What issues of particular importance?	Efficient use of existing infrastructure is paramount regardless of environmental impact, Emissions Trading Scheme and similar schemes mask inefficiency and hinder true multimodal useage. Coastal shipping is the most environmental efficient method of transport; it has far less carbon emissions than alternate methods such as road or rail. The costs to set up infrastructure are less than road and rail.
Efficiency of individual components	
5 To what extent is there effective competition for customers between New Zealand ports? Has this led to lower prices and incentives for productivity improvements?	Port ownership in general and in particular Auckland is inefficient and makes no difference to cost or productivity increases. Observation is that Ports are very competitive but not to the point of lowering prices for the importer/exporter as each end up spending considerable sums in capital expenditure in the hope of luring shipping Lines, the cost of which then adds to rather than lessening the prices to shippers.

19	From the perspective of New Zealand importers and exporters, to what extent is the international shipping industry competitive?	International shipping is highly competitive and generally rate driven. However, competitiveness could be somewhat blurred with so many joint arrangements between Lines. Very seldom do we ever see any one Line stand out from the pack. All tend to reflect and follow the lead of each other in terms of rates and pricing. A competitive environment is essential to ensure that NZ importers and exporters receive a fair deal. Freight is effectively a commodity so the pricing is based on supply and demand, when demand is restricted the price increases, when additional capacity becomes available pricing decreases. We do not have stable pricing as a result, over the last period of time pricing has been decreasing on the whole, however, it is unstable and therefore unreliable for many smaller importer and exports or those that have not structured the right agreements.
20	To what extent have collaboration agreements between international sea carriers been helpful or harmful to the interests of New Zealand importers and exporters?	These collaboration agreements were useful in earlier times as it encouraged lines to come to New Zealand, it allowed them to set pricing that meant the could operate here however it means that lines do not operate in a fully competitive environment elevating the need for them to look for efficiency and ways to reduce costs.
21	What is the basis for the different regulatory treatment of imports and exports under the Commerce Act and Shipping Act? Is this differential treatment justified?	This was to encourage lines to operate in New Zealand, this may have been needed in the past, but in today's environment these types of agreements are now out-dated and should no longer exist.
24	To what extent do the current regulatory and competition regimes that affect international sea freight transport services work well or not for New Zealand exporters and importers?	The shipping conferences currently in agreement has no bearing on New Zealand freight rates, disclosure as in the American model is not sought after nor desired. Conference membership does not affect rates equipment or vessels but promotes supply and demand.
27	Are Auckland, Christchurch and Wellington airports subject to competitive pressure for the air-freight related services they provide? Do they exert market power to the detriment of New Zealand exporters and importers?	Airports are not subject to competitive pressure because they have ceded any freight obligations to Container Terminal Operators, in essence a duopoly or monopoly in the case of Wellington. Airports are more interested in passengers, retail and parking than freight facilitation. The service providers can effectively charge what they like for their services, this can be seen in the freight handling area in Auckland, the freight terminals are antiquated and need investment to bring them up to modern efficient facilities that are able to handle increased volumes in the future, queuing times for collecting cargo are already far to long and costing industry a lot of money.
30	What levels of investment have Auckland and Christchurch airports undertaken in international freight, and are they consistent with accessible and efficient services for New Zealand exporters and importers?	Investment in freight handling is negligible so therefore inconsistent with importers and exporters needs.

31	Should the future size and shape of New Zealand air freight services be left to market forces and individual airport owners, or do lumpiness and interdependence (including with investments in connecting parts of the overall supply chain) call for a more deliberately coordinated approach?	Future freight services should not be left to market forces and airport owners. A co-ordinated approach is required to maximise benefits, with interested parties being engaged to align all to achieve the greater good for all with focus on technology, efficiency and removing unnecessary costs.
33	Are there opportunities to introduce or increase competition in the provision of air freight-related services at airports? Would such competition lead to better outcomes?	Ending duopoly approach may increase competition, the barriers to entry remain low but the barriers of space and commitment from airport authorities hinders growth as they are focused on commercial property rental income streams not any altruistic need to help the import/export community. If another airport were to be developed in Auckland and some airlines were encouraged to fly there because of reducing landing and handling fees the freight would follow as most freight is carried in the belly holds of passenger aircraft.
35	To what extent is the international air freight industry competitive?	The industry is very competitive to a point of supporting large volume shippers but not for ad hoc shipments. The freighter market is another issue, now that Singapore Airlines Cargo (SQ) is the only freighter operating to New Zealand. Pricing for over dimensional cargo has become very expensive with SQ quoting up to GBP 10.00 P/Kg for consignments. We desperately need another airline to step into this space and look to our national carrier Air NZ to reinstate the service previously operated, albeit with a routing that is more reflective of our current trading.
36	Are there specific air freight routes to or from New Zealand with low levels of competition? Is there evidence of overpricing or poor service levels on these routes?	Yes freighter or over dimensional cargo, cargo southbound from Europe and the USA. Australian East Bound cargo with the move to narrow bodied aircraft has created an issue for the airfreight industry with limited capacity and higher pricing.
38	What explanations exist for the different treatment of international air freight in the Civil Aviation Act compared with the normal competition requirements of the Commerce Act? Do the objectives of the current regulatory treatment continue to be justified?	None, The Commerce Act should take precedence over Civil Aviation Act
40	Does the Cargo Agents' Commission Regime perform an active and useful function in international air freight services? Who does it benefit? Is the exemption from the Commerce Act required to achieve that function?	Air cargo commissions benefit few. It's a carrot and stick tool for CASS - IATA's Cargo Account Settlement System
42	To what extent are the current regulatory arrangements adequate to deal with the investigation and prosecution of collusive behaviour in international air freight services?	All current regulatory arrangements are adequate.

43	Do the current regulatory and competition regimes that affect international air freight transport services work well, or not, for New Zealand exporters and importers?	They work well and are adequate
44	Is there a case for the different regulatory treatment of air freight services vs. sea freight services?	None required
46	What are the typical customs and Biosecurity costs faced by exporters and importers? How are those costs broken down? Is there scope to reduce them?	Costs are all set as user pays for services provided; broken down into transaction costs, costs of compliance including operating Approved Transitional Facilities, set up and auditing etc. No scope required to reduce charges.
47	Do New Zealand's customs and Biosecurity systems deliver the required outcomes efficiently? What initiatives might improve efficiency and effectiveness?	Yes - but there is some concern that the audit regime costs are an area where there is unproductive cost incurred and a need for uniformity in audit procedures and requirements. There is also a need to reduce the number of departments that an individual or company must deal with for the release of a shipment, additional complexity leads to additional costs.
48	Does the World Bank's analysis fit with the experience of importers and exporters? What opportunities are there to eliminate and/or streamline documents? Would this make a material difference in the total cost or speed of the logistics chain?	No, World Bank's analysis appears flawed. Documents and costs can be reduced by greater use of technology.
49	Are there any measures that New Zealand could undertake to reduce the security-related costs imposed on exporters and importers?	View security as public good and there is a need to refrain from imposing costs under CAA Rule 109
50	What transaction costs are associated with import tariffs? Are there administrative or other changes that could improve the efficiency of tariff collection?	Duty, GST, Customs entry and customs transaction charges are associated with import tariffs. Use of more definitive tariff system such as GS1 standards codes to more accurately describe products with links to tariff codes.
51	What changes in domestic transport institutions, policies and regulations might lead to the greatest improvements in the economic efficiency of the international logistics chain?	Remove reliance on road transport as the primary means of transporting goods inter island, increase dedicated rail links and invest in dedicated highway lanes if required to facilitate greater efficient useage of road if required.
52	How competitive is the freight forwarding industry that serves New Zealand exporters and importers? Do the recent Commerce Commission investigations of a number of firms indicate that there are systemic problems, or that the regulatory and competition regime is working well?	The freight forwarding industry is incredibly competitive, with 300+ operators in a small market, to the point where New Zealand importers and exporters are immune to the costs experienced by other countries and are shielded from paying a full and fair amount for services rendered. It is also possible that as a result, quality of service is compromised and the professional value component of the supply chain is undermined. The recent Commerce Commission investigations were largely as a result of activities that occurred offshore, it is not an indication of systematic issues in New Zealand.

Efficiency of Interfaces between components

53	What are the costs of transit time to importers and exporters?	Costs of transit could include financing costs and potential product deterioration; it will depend on terms of trade applicable.
54	What sources of delay contribute to transit time? How might those delays be efficiently reduced?	Delays to transit include adverse weather effects, lack of capacity, transhipment at hub ports both air and sea, together with Overseas ports and union controls which impact on scheduling. Shipping lines may overbook vessels during peak periods. Adequate capacity to meet demand would assist in reducing delays. Efficiencies in air/sea bridges are a method of reducing transit, as well as acceptance by exporters/importers of the concept.
55	Are there potential efficiency gains from vertical integration in New Zealand's international sea freight services? What are the disadvantages? What might need to change in order to allow or encourage greater vertical integration?	The greatest gain to be made from vertical integration would be the sharing of data and elimination of the requirement to capture the same data many times. This would need to be done through a co-ordinated approach using common data transfers methods. Getting competitors to share data for a competitor's benefit would be difficult.
56	Are there potential efficiency gains from the vertical separation of specific components or activities in New Zealand's international sea freight services? What are the disadvantages?	Selling port stevedoring operations or terminals to commercial operators such as DP World, APM Terminals or similar will increase efficiencies.
58	What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?	The scope and need for integration is high no more so than in the North Island between Tauranga and Auckland; forced mergers are unlikely but continued pressure from the large primary exporters cannot be ignored. The geography of New Zealand makes it difficult to consolidate ports; vast distances exist from one end of the country to the other. Shipping lines have been moving to larger and larger ports. However we have recently seen Maersk reduce the size of its vessels to enable them to call in the smaller ports directly, but also give them more refrigerated container plugs, bigger vessels often have the same number of refer container plugs as smaller vessels, the requirement for large numbers of refrigerated container plugs makes the New Zealand market unique. Other lines are looking at alternatives currently as they cannot rely on New Zealand's current Coastal operator.
61	Are the time costs associated with international air freight incorporated into current road infrastructure planning? To what extent should they be?	No not at the moment

62	Do domestic air links work as an effective feeder for international air freight services? What could be improved?	What air links? Domestic air links are redundant with road trains carrying the principal bulk freight, integrators use feeders for small parcel services. Air craft on domestic routes are all narrow bodied and not suited to carrying cargo. Beyond the main trunk route, regional air links do not service cargo and that has to be accepted given the small population base of the regions. It does however make even more important the international airports in both islands. With current road freight services both Auckland and Christchurch are achievable with overnight road services available.

Efficiency of the logistics chain

63	Where in the logistics chain are time delays occurring, and how might they be addressed?	Delays occur waiting for original paperwork that is required on some shipments by government departments such as MAF, also shipments can be delayed a week waiting for a booking for inspection for a simple inspection. Delays are also occurring meeting security and compliance requirements, delays occur with shipping lines in transhipment ports when lines overbook cargo. Delays occur retrieving cargo from Air Cargo Terminal operators and in particular Air New Zealand Auckland. Greater acceptance of electronic documents should be used, as well as looking at the options for co-management of some government department functions with trained/approved persons from private industry. These issues need to be worked through engaging interested parties to find solutions that meet the needs of all.
64	Does the imbalance of container use create significant costs? What practical measures might efficiently reduce these costs?	Container positioning is required because of the nature of New Zealand exports; moving to a hub via Australia may reduce cost but is contrary to the concept of New Zealand Inc. Greater costs accrue when the Lines fail to manage the supply and availability of equipment, despite prior knowledge of requirements and bookings. It is being handled probably about as efficiently as it can, not sure much more can be done in this area.
65	What are the potential benefits and risks for New Zealand from a move to hub-and-spoke configurations for international shipping? Are there actions New Zealand can take to increase the likelihood of benefits or to manage the risks?	Hub-and-spoke in New Zealand is a real opportunity but requires a willingness to invest and a discipline for useage. This would create delays for cargo leaving and arriving from and to its final destination. With the current single coastal operator, they are not capable of successfully operating the feeder service and don't have the scale to warrant setting up wider ranges of services.
66	To what extent do formal and informal alliances between airlines improve or detract from the efficiency of international air freight services? Are there opportunities to improve outcomes?	New Zealand is a small market dominated by large corporate players; alliances are required in order to achieve the level of investment required. No alliances should be able to discuss or affect pricing. However if airlines needed to share flights to operate wide bodied aircraft as opposed to narrow bodied aircraft this would certainly benefit freight movement as long as it didn't reduce competition

67	What measures might improve the overall system efficiency of the logistics chain for international air freight?	Improvements in infrastructure and staff levels within Airline Container Terminal Operators. Greater access to data sharing
68	Are import and export opportunities excluded or constrained by the lack of access to international freight transport services? Are there changes in institutions, policies or regulations that could lead to better outcomes?	Nothing excluded, however, not everything fits into a container "box". The ability to move "out of gauge" cargo is seriously limited especially to/from the South Island. There is no doubt that high costs of transport lead to lost opportunities when competing in the global market, Australia's costs of transport are far less than New Zealand's due to the additional competition that they have in their market.
69	Is there scope for increased sharing of operational data between transport firms to achieve improved coordination and efficiency? How might this be achieved?	No scope identified, collusion only leads to anti competitive behaviour, anything of this nature would take some time to achieve, and would really need to be share through a common independent portal.
70	Do the restrictive trade practices provisions of the Commerce Act deter the efficient sharing of operational data?	Yes, forwarders are very wary of operating with their competitors because of the Commerce Act
71	Is there a role for government to require the disclosure of performance measures in specific components, and to collate and publish that data?	As part of the Government's drive to ensure that companies comply with regulatory requirements, the Government could release data showing performance providing an incentive to achieve and maintain the required compliance standards, those companies that meet the standard should then need less audits and monitoring, this would reduce the costs for both the Government and companies involved, the consequences for non compliance should be greater.
72	Given likely future trends in trading patterns and transport technology, will the reliability, speed and efficiency of international logistics services be adequate for New Zealand's interests? If not, what can be done to leverage opportunities and mitigate risks?	Yes, New Zealand's main issue is ensuring that the carriers calling at New Zealand ports are deploying modern technology particularly in the area of fuel efficiency to ensure that we remain competitive, reduce costs of transportation and carbon emissions. Regarding information technology and business logistics best practices, there is good multinational representation in the logistics industry in New Zealand with access to technology that will be of benefit to the New Zealand logistics sector creating competition amongst local forwarders and driving improvement.
73	What is the best way to achieve efficient decisions and coordination for the large, lumpy and interdependent investments that typically occur along international freight supply chains?	Keep regional government (read Auckland city) out of any decision making process, although the private sector is often unwilling to invest large amounts when there is no certainty of good return, scale is still an issue for infrastructure for New Zealand.
74	What factors would favour the choice of decentralised vs. centralised strategic planning?	Centralised strategic planning makes sense in a small country / market such as New Zealand to encourage alignment ensuring best outcomes for all New Zealand stakeholders

75	What costs exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?	On the whole New Zealand is competitive for the costs of documentation and conducting transactions compared with those we see in developed overseas markets, scale is an issue that we can hopefully address over time. The main issue for cost is the air freight and ocean freight transport costs when compared with other markets, refrigerated transport costs are very high, this is the area needs addressing. Stability of pricing is an area of concern, carriers with peak season surcharges and fluctuating pricing, carriers have adopted slow steaming and boasting significant fuel savings yet Bunker Adjustment Factors (BAFs) are still very high with savings not being passed on. Carriers need to lose Cartel status.
76	What productivity levels exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?	Greater use of technology has allowed companies involved in this sector to increase their productivity whilst providing greater levels of service and information with fewer staff
77	Are you able to contribute data that would assist the Commission?	This is dependent on the data required.

Next Steps

78	Has the issues paper covered the key issues? What other questions need to be asked?	Yes
79	What are the most important issues for the Commission to focus on to achieve the greatest improvements in the efficiency and productivity of New Zealand's international freight transport services?	Improve competition in shipping by removing Cartel protection, reduce duplication and complexity of operating with government agencies, publish data and incentivise companies to voluntarily improve compliance raising standards, encourage operation of second air freight freighter service to New Zealand,

Appearance

If there is a requirement or opportunity to meet with the Commission, The Customs Brokers and Freight Forwarders Federation would be happy to do so.